

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

AUDITED BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004



VIRGINIA
Is For Business

Virginia Economic Development Partnership
Audited Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS

Board of Directors

J. Thomas Fowlkes, Chair
Steve DelBianco, Vice-Chair

Mary Rae Carter	John F. Malbon
George B. Cartledge, III	Richard F. Neel, Jr., Esquire
Lawrence A. Davies	Ike Prillaman
John A. Mahone	James E. Rich, Jr.
Charles H. Majors	John W. Roberts
	James E. Ukrop

The Honorable Michael J. Schewel, Ex-Officio
The Honorable John M. Bennett, Ex-Officio

Executive Director

Mark R. Kilduff

FINANCIAL SECTION



Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 18, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Virginia Economic Development Partnership**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2004, which collectively comprise the Partnership's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Virginia Economic Development Partnership, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 5 through 8 and 14 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have

applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2004, on our consideration of the Virginia Economic Development Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That letter report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Walter J. Buchinski". The signature is fluid and cursive, with a large initial "W" and "J".

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF JUNE 30, 2004

The management of the Virginia Economic Development Partnership (Partnership) offers the readers of the Partnership's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2004. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Virginia Economic Development Partnership (Partnership) in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the Partnership's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Partnership is improving or deteriorating.

The Statement of Activities presents information showing how the Partnership's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, accrued interest earned but not yet collected (revenue) or earned but unused vacation leave (expense).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Partnership, like other political subdivisions of the Commonwealth of Virginia, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial activities of the Partnership are reported in *governmental funds*.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Partnership's near-term financing requirements.

Reconciliations between Government-Wide and Fund Financial Statements

There are two reconciliations between the government-wide and the fund financial statements. The first is found on the Balance Sheet and explains the difference between the *fund balance* on the Balance Sheet and *net assets* on the Statement of Net Assets. The second is found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities, which reconciles the difference between the *net change in fund balances* on the fund-based statement and the *change in net assets* on the government-wide based statement. Both statements describe in sufficient detail the amounts and the reasons for those differences.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an organization's financial position. In the case of the Partnership, assets exceeded liabilities by \$188,515 and \$500,981 at the close of the fiscal years ended June 30, 2004, and 2003, respectively.

Net Assets

	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 2,133,706	\$ 2,143,695
Capital assets, net of depreciation	<u>477,346</u>	<u>552,250</u>
Total assets	<u>2,611,052</u>	<u>2,695,945</u>
Long-term liabilities	2,057,347	1,948,495
Other liabilities	<u>365,190</u>	<u>246,469</u>
Total liabilities	<u>2,422,537</u>	<u>2,194,964</u>
Net assets:		
Invested in capital assets, net of related debt	477,346	533,565
Unrestricted	<u>(288,831)</u>	<u>(32,584)</u>
Total net assets	<u>\$ 188,515</u>	<u>\$ 500,981</u>

Total assets decreased this fiscal year by \$84,893 as compared to last year. The major components of the decrease were a decrease in *Cash and cash equivalents* of \$99,210 and a decrease in *Capital assets, net of depreciation* of \$74,904. These increases were offset by an increase in *Other receivables* of \$62,132 and an increase in *Petty cash* of \$15,000. Total liabilities increased by \$227,573 as a result of an increase in *Accounts payable* of \$111,176 and *Net pension obligation* of \$118,420. The largest component of the Partnership's *Net assets* is comprised of its *Capital assets, net of related debt*, which amounts to \$477,346. These assets are used by the organization to deliver program services to its clients and consist primarily of computers and peripheral technology equipment. The deficit remainder of *Net assets*, (\$288,831), is classified as *unrestricted*.

Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Revenues:		
Program revenues:		
Charges for services	\$ 258,123	\$ 218,209
General revenues:		
General Fund appropriations	15,395,290	14,185,396
Other	<u>49,058</u>	<u>64,569</u>
Total revenues	<u>15,702,471</u>	<u>14,468,174</u>
Expenses:		
Business Development	4,492,632	4,086,115
International Trade	2,821,400	2,385,458
Research	1,637,825	1,920,918
Communications and Promotions	2,106,106	2,055,257
General Counsel and Legislation	215,065	268,741
Information Technology	1,749,971	1,845,567
Administration	2,891,938	2,849,856
Pass-through Payments	<u>100,000</u>	<u>100,000</u>
Total expenses	<u>16,014,937</u>	<u>15,511,912</u>
Decrease in net assets	(312,466)	(1,043,738)
Beginning net assets	<u>500,981</u>	<u>1,544,719</u>
Ending net assets	<u><u>\$ 188,515</u></u>	<u><u>\$ 500,981</u></u>

Net assets for the Partnership decreased by \$312,466 during the current fiscal year. This is approximately \$700,000 less than the decrease from last year. The primary reason is that revenues increased more rapidly than related expenses, net of charges for services, in this fiscal year as compared to last fiscal year. All revenues increased by approximately \$1.2 million due primarily to funding for the Virginia Commission on Military Bases (VCOMB) and various administrative adjustments for compensation and information technology. Expenses, net of charges for services, increased by approximately \$500,000, also due primarily to VCOMB expenses.

General Fund Budgetary Highlights

The Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis is presented to provide information on the budget as originally prepared and the final budget on which the Partnership operated for the fiscal year. Also, the final budget is compared to the cash basis actual results by revenue source and expenditure activity.

The primary change in total revenue occurred, as noted above, from an increase in the Revenue provided by the General Fund of the Commonwealth for the VCOMB funding of approximately \$700,000, and the remainder from administrative adjustments for compensation and technology.

Expenses increased for the fiscal year due to VCOMB spending, additional International Trade program spending, general office refurbishment, an additional fleet vehicle, and office lease renewal related expenditures.

Funding for VEDP for the fiscal years ended June 30, 2003 and 2004, except for administrative adjustments related to salaries and benefits, has remained relatively flat and is expected to remain so for the foreseeable future.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes describe the nature of the Partnership's reporting entity and the relationship to the Commonwealth of Virginia as a whole; the basis on which the financial statements were prepared; and the methods used for presentation. Further, the notes provide explanations of specific accounts with significant balances.

Requests for Information

This financial report is designed to provide a general overview of the Partnership's finances for all those with an interest in the Partnership's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Virginia Economic Development Partnership, P.O. Box 798, Richmond, Virginia, 23218-0798.

Basic Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF NET ASSETS
As of June 30, 2004

	Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	\$ 1,716,535
Petty cash	160,872
Employee travel advances	21,485
Prepaid expenses	18,843
Other receivables	62,132
Lease deposits (Note 5)	153,839
Capital assets, net of accumulated depreciation:	
Leasehold improvements, furniture, and equipment (Note 6)	<u>477,346</u>
Total assets	<u>2,611,052</u>
Liabilities	
Accounts payable	229,430
Accrued payroll	135,760
Noncurrent liabilities due within one year	
Compensated absences (Note 8)	431,673
Noncurrent liabilities due in more than one year	
Compensated absences (Note 8)	306,287
Net pension obligation (Note 9)	<u>1,319,387</u>
Total liabilities	<u>2,422,537</u>
Net assets	
Investment in capital assets, net of related debt	477,346
Unrestricted	<u>(288,831)</u>
Total net assets	<u>\$ 188,515</u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:			
Business Development	\$ 4,492,632		\$ (4,492,632)
International Trade	2,821,400	109,145	(2,712,255)
Research	1,637,825		(1,637,825)
Communications and Promotions	2,106,106	148,978	(1,957,128)
General Counsel and Legislation	215,065		(215,065)
Information Technology	1,749,971		(1,749,971)
Administration	2,891,938		(2,891,938)
Pass-through Payments	100,000		(100,000)
Total governmental activities	16,014,937	258,123	(15,756,814)
General Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 4)			15,395,290
Interest revenue			35,606
Other revenue			13,452
Total general revenues			15,444,348
Decrease in net assets			(312,466)
Net assets, July 1, 2003			500,981
Net assets, June 30, 2004			\$ 188,515

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
BALANCE SHEET
GOVERNMENTAL FUND
As of June 30, 2004

	<u>General Fund</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 1,716,535
Petty cash	160,872
Employee travel advances	21,485
Prepaid expenses	18,843
Other receivables	62,132
Lease deposits (Note 5)	<u>153,839</u>
Total assets	<u><u>\$ 2,133,706</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 229,430
Accrued payroll	<u>135,760</u>
Total liabilities	<u>365,190</u>
Fund Balances:	
Unreserved (Note 3)	1,768,516
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	477,346
Noncurrent liabilities (compensated absences and net pension obligation) are not due and payable with current financial resources and, therefore, are not reported in the funds.	<u>(2,057,347)</u>
Net assets of governmental activities	<u><u>\$ 188,515</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2004

	General Fund
Revenues	
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 15,395,290
Participation fees	158,045
Mission reimbursements	100,078
Interest revenue	35,606
Total revenues	15,689,019
Expenditures	
Business Development	4,449,281
International Trade	2,785,784
Research	1,685,070
Communications and Promotions	2,095,897
General Counsel and Legislation	214,612
Information Technology	1,603,679
Administration	2,885,531
Pass-through Payments	100,000
Total expenditures	15,819,854
Deficiency of revenues under expenditures	(130,835)
Other financing sources (uses)	
Proceeds from sale of fixed assets	13,492
Loss on foreign currency	(40)
Total other financing sources (uses)	13,452
Net decrease in fund balance	(117,383)
Fund balance, July 1, 2003	1,885,899
Fund balance, June 30, 2004	\$ 1,768,516

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net decrease in fund balance of the general fund	\$ (117,383)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and loss on asset disposals exceeded capital outlays in the current period.	(74,903)
The use of long-term debt (installment purchases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	18,685
Some expenses reported in the statement of activities (compensated absences and net pension obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(138,865)</u>
Change in net assets of governmental activities	<u>\$ (312,466)</u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variances with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 14,486,241	\$ 15,395,290	\$ 15,395,290	\$ -
Participation fees	141,750	146,750	173,820	27,070
Mission reimbursements	-	-	22,170	22,170
Interest revenue	50,000	25,000	35,607	10,607
Other revenue	-	-	108	108
Total revenues	14,677,991	15,567,040	15,626,995	59,955
Expenditures:				
Business Development	4,016,029	4,923,451	4,412,000	511,451
International Trade	2,732,417	2,899,930	2,737,079	162,851
Research	1,656,180	1,752,384	1,677,458	74,926
Communications and Promotions	1,611,368	1,945,254	2,077,984	(132,730)
General Counsel and Legislation	211,188	220,693	213,246	7,447
Information Technology	1,462,346	1,687,983	1,596,944	91,039
Administration	3,105,203	2,906,183	2,908,137	(1,954)
Pass-through Payments	100,000	100,000	100,000	-
Total expenditures	14,894,731	16,435,878	15,722,848	713,030
Revenues over (under) expenditures	(216,740)	(868,838)	(95,853)	772,985
Other financing sources (uses):				
Sale of fixed assets	-	-	13,492	13,492
Loss on foreign currency	-	-	(40)	(40)
Total other financing sources (uses)	-	-	13,452	13,452
Revenues and other sources over (under) expenditures and other uses	(216,740)	(868,838)	(82,401)	786,437
Fund balances, July 1, 2003	216,740	868,838	2,135,132	1,266,294
Fund balances, June 30, 2004 (Note 3)	\$ -	\$ -	\$ 2,052,731	\$ 2,052,731

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Economic Development Partnership (the Partnership) was established on July 1, 1996, by Chapter 638 of the 1995 Acts of Assembly and operates as an authority in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia. The Partnership's major activities are to encourage, stimulate, and support the development and expansion of the economy of the Commonwealth.

The Partnership is a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Partnership is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, the Partnership's financial statements are included in the financial statements of the Commonwealth as a discretely presented component unit.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with general accepted accounting principles. The Statement of Net Assets and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Program revenues include charges for services consisting of participation fees and shared mission reimbursements.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Partnership considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due.

The Partnership reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all Partnership financial resources.

C. Capital Assets

Capital assets are defined by the Partnership as those assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of two to twenty years.

D. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2004. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

E. Budgets and Budgetary Accounting

The Partnership's budget was primarily established by the Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2004, which is the second year of the biennium ended June 30, 2004. No payments were made to the Partnership out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Partnership bank accounts in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia and expended for purposes as stated in those provisions. The budget is prepared on the cash basis.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and is not categorized as to credit risk. The LGIP funds are held in pooled accounts and accordingly, are also not categorized as to credit risk as defined by Statement 3 of the Governmental Accounting Standards Board.

Credit risk is the risk that the Partnership may not be able to obtain possession of its investment instruments. Risk category 1 includes investments which are insured or registered or for which the securities are held by the Partnership or its safekeeping agent in the Partnership's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the Partnership's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the Partnership's name. There are no accounts or investments in categories 1, 2, or 3.

<u>Cash and Cash Equivalents</u>	<u>Non-Categorized</u>	<u>Fair Value</u>
Cash on deposit	\$ 107,805	\$ 107,805
Cash with Local Government Investment Pool with the Treasurer	<u>1,608,730</u>	<u>1,608,730</u>
Total cash and cash equivalents	<u>\$ 1,716,535</u>	<u>\$ 1,716,535</u>

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - General Fund presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	<u>General Fund</u>
Fund balance, cash basis, June 30, 2004	\$ 2,052,731
Add: Prepaid expenses	18,843
Other Receivables	62,132
Deduct: Accrued expenses	<u>(365,190)</u>
Fund balance, GAAP basis, June 30, 2004	<u>\$ 1,768,516</u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation	\$ 14,486,241
Add: Central Appropriations Adjustments	220,049
Military Base Closing Funding	<u>689,000</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 15,395,290</u>

5. LEASE DEPOSITS

The Partnership maintains offices in Frankfurt, Germany and Tokyo, Japan. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Frankfurt lease deposit is held in U.S. dollars in an interest bearing account and is valued at \$31,975. The interest earned on the deposit is used to offset monthly bank charges. The Tokyo lease deposit is held in Japanese yen and does not accrue interest. The yen deposit increased in value during the fiscal year ended June 30, 2004, due to a favorable currency exchange rate, however, that increase is not a recognizable gain. The Tokyo lease deposit remained \$121,864. The total value of lease deposits for the Partnership for the fiscal year ended June 30, 2004, is \$153,839.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

Capital Assets Being Depreciated	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Leasehold improvements, furniture and equipment	\$ 2,062,267	\$ 257,410	\$ (429,230)	\$ 1,890,447
Less: accumulated depreciation	<u>1,510,017</u>	<u>268,449</u>	<u>(365,365)</u>	<u>1,413,101</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 552,250</u>	<u>\$ (11,039)</u>	<u>\$ (63,865)</u>	<u>\$ 477,346</u>

7. COMMITMENTS

The Partnership is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements for the fiscal year ended June 30, 2004, amounted to \$1,627,583. The Partnership signed a 5th amendment to its Riverfront Plaza lease subsequent to June 30, 2004. The new agreement commences on September 22, 2004, and ends on December 31, 2015. Although the lease was not signed until after the fiscal year ended, the payments are included in the schedule below. A summary of minimum future obligations under these lease agreements as of June 30, 2004, follows:

<u>Year Ending June, 30</u>	<u>Operating Lease Obligations</u>
2005	\$ 1,222,587
2006	1,232,789
2007	1,088,907
2008	1,206,738
2009 and later	<u>9,128,571</u>
Total future minimum rental payments	<u>\$ 13,879,592</u>

The Partnership has contracted for three years of maintenance on its Microsoft products. As of June 30, 2004, there were two years remaining on this commitment amounting to \$90,149.

8. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2004, was as follows:

<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
<u>\$ 728,843</u>	<u>\$ 470,836</u>	<u>\$ 461,719</u>	\$ 737,960
	Due Within One Year		<u>(431,673)</u>
	Due in More Than One Year		<u>\$ 306,287</u>

9. PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS

The Partnership is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2004, the Partnership's net pension obligation was \$1,319,387.

Plan Description

All full-time and part-time salaried employees of the Partnership participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent and a cost-

sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5 percent member contribution. The Partnership does pay the member contribution, which amounted to \$319,926 (5 percent of total creditable compensation of \$6,398,527). In addition, the Partnership is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Partnership contribution rate for the fiscal year ended June 30, 2004, was 3.77%, which resulted in a contribution of \$241,225 for the fiscal year.

10. RISK MANAGEMENT

The Virginia Economic Development Partnership is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Partnership is insured for these risks through commercial insurance policies. Further, the Partnership is insured for workers compensation and from loss from employee actions by an insurance policy issued by the Chubb Group, the Federal Insurance Company. Policy coverage from loss from employee actions is \$50,000 per year with a \$1,000 deductible for each loss.

The Partnership participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by the Department of Human Resource Management (DHRM). The Partnership pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.



Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 18, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the **Virginia Economic Development Partnership** as of and for the year ended June 30, 2004, and issued our report dated October 18, 2004. Our auditor's report on the financial statements is contained in the Partnership's *Annual Report* for fiscal year 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Directors and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 27, 2004.

A handwritten signature in black ink, appearing to read "Walter J. Schuchman".

AUDITOR OF PUBLIC ACCOUNTS